



(a joint stock limited company incorporated in the People's Republic of China with limited liability)

**CONNECTED TRANSACTION IN RELATION TO
ACQUISITION OF ADDITIONAL INTEREST IN ZHEJIANG SHANGSAN EXPRESSWAY CO., LTD.**

SUMMARY:

Transfer Agreement

Further to the announcement dated 10th January, 2001, the Board hereby announces that the Company has entered into the Transfer Agreement pursuant to which the Company has conditionally agreed to purchase an approximate 18.4% interest in Shangsans Co from Huajian for an estimated consideration of approximately RMB 485 million. The consideration is to be satisfied in cash, and is intended to be funded by either a portion of the proceeds arising from the A Share Issue, or by internal resources of the Company and/or bank loans.

Connected Transaction

Shangsans Co is a non-wholly owned subsidiary of the Company and Huajian is a substantial shareholder of Shangsans Co within the meaning of the Listing Rules. The Acquisition accordingly constitutes a connected transaction for the Company under the Listing Rules. Huajian will also become a substantial shareholder of the Company pursuant to the State-owned Share Transfer Agreement and upon completion of certain registration formalities with the relevant PRC authorities. An EGM will be convened at which, inter alia, a resolution, on which Huajian and its associates (as defined in the Listing Rules) will be required to abstain from voting, will be put forward for the Independent Shareholders to approve the Acquisition.

Prior to completion of the transfer of the 11% interest in the Company from Zhejiang Provincial Investment Co to Huajian pursuant to the State-owned Share Transfer Agreement, Zhejiang Provincial Investment Co will not be under any obligation or requirement to vote at the direction of Huajian in respect of the 11% interest, and accordingly will be entitled to vote at the EGM in respect of its 67% interest in the Company. Nevertheless, Zhejiang Provincial Investment Co has indicated to the Company that, for good corporate governance, it will abstain from voting at the EGM in respect of the 11% interest in the Company, even though it is not under any obligation or requirement to so abstain from voting.

The Independent Board Committee has been formed to advise the Independent Shareholders on the Acquisition and DBS Asia Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee on the terms of the Transfer Agreement.

A Share Issue

The Company intends to use the proceeds arising from the A Share Issue to fund the second stage of the construction to widen the Shenshi to Hongken section of the Shanghai-Hangzhou-Ningbo Expressway, in addition to the use of proceeds set out in the announcement of 10th January, 2001.

The Board announced on 10th January, 2001 that the Company intended to apply to the CSRC and the Shanghai Stock Exchange for the issue and placement of A Shares and for the listing of the A Shares on the Shanghai Stock Exchange. The Board further announced that the Company intended to use part of the proceeds arising from the A Share Issue to acquire an approximate 18.4% interest in Shangsans Co from Huajian.

Transfer Agreement

Date: 2nd February, 2001

Parties:

- (1) The Company; and
- (2) Huajian.

Under the Transfer Agreement, the Company has conditionally agreed to purchase, and Huajian has conditionally agreed to sell, an approximate 18.4% interest in Shangsans Co held by Huajian. The consideration to be paid by the Company for the Acquisition is to be determined by reference to the audited net book value of Shangsans Co for the year ended 31st December, 2000, prepared in accordance with PRC GAAP, together with a sum of approximately RMB10.55 million representing interest payments incurred by Huajian in respect of its capital contribution in Shangsans Co. The audited net book value of Shangsans Co for the year ended 31st December 1999 was RMB2,195 million, and the unaudited net book value of Shangsans Co for the year ended 31st December, 2000 was approximately RMB2,584 million. The Directors estimate that the consideration payable by the Company will accordingly amount to approximately RMB485 million. The consideration is to be satisfied in cash, and is intended to be funded by a portion of the proceeds arising from the A Share Issue. In the event that the proceeds from the A Share Issue are unavailable for funding the Acquisition, or the proceeds are insufficient, or if the A Share Issue does not proceed, the Company intends to fund the Acquisition by internal resources and/or bank loans. The consideration is to be paid within 6 months from the date of the completion of the A Share Issue and the issuance of a report in relation to the A Share Issue by a firm of accountants to be appointed by the Company. In the event that the A Share Issue does not proceed or is not completed, the parties will agree a different timing for payment of the consideration.

Completion of the Transfer Agreement is conditional upon the passing of a resolution by the Independent Shareholders at the EGM to approve the entering into by the Company of the Transfer Agreement, and the obtaining of approvals from the Ministry of Communication and the Ministry of Finance.

The registered capital of Shangsans Co is RMB 2,400 million, of which Huajian contributed RMB 441 million, representing an approximate 18.4% interest. The audited net profits of Shangsans Co before and after taxation and extraordinary items and the audited net profits before and after taxation and extraordinary items attributable to the approximate 18.4% interest in Shangsans Co for the two years ended 31st December, 1999 are set out below:

	Net profit of Shangsans Co before taxation and extraordinary items RMB	Net profit of Shangsans Co after taxation and extraordinary items RMB	Net profit of Shangsans Co before taxation and extraordinary items attributable to an 18.4% interest RMB	Net profit of Shangsans Co after taxation and extraordinary items attributable to an 18.4% interest RMB
1998	94,219,659	70,173,365	17,336,417	12,911,899
1999	92,172,259	79,667,063	16,959,696	14,658,740

Shangsans Co

Shangsans Co was incorporated under the laws of the PRC with limited liability and is principally engaged in the management and operation of, and collection of tolls from, the Shangsans Expressway. The Company currently holds a 61% interest in Shangsans Co while Huajian holds an approximate 18.4% interest. There are five other minority shareholders in Shangsans Co.

Shangsans Expressway

Construction of the Shangsans Expressway was completed and the expressway fully opened to traffic on 26th December 2000. Toll collection commenced on the same date and will continue for a period of 30 years. The Shangsans Expressway is 142.3 kilometers in length and starts at the Guzhu Interchange on the Shanghai-Hangzhou-Ningbo Expressway and ends at the Wuaou Interchange on the Ningbo-Taizhou-Wenzhou Expressway. It links the major municipalities and cities such as Shangyu, Shengzhou, Shinchang, Tiantai, Sanmen in the Zhejiang Province, and connects the Shanghai-Hangzhou-Ningbo Expressway with the Ningbo-Taizhou-Wenzhou Expressway. Shangsans Expressway is a major expressway in the so-called "four hours expressway traffic circle" and connects the provincial capital of Hangzhou with other municipalities. It also forms an important part of the national coastal highway network. The Shangsans Expressway is a four-lane closed end expressway, with full 3D viaducts and full supervisory control. There are 11 inter-connecting entrances and 3 service areas along the expressway.

Reasons for the Acquisition

The Shangsans Expressway connects the Shanghai-Hangzhou-Ningbo Expressway, which is wholly-owned by the Group, with the Ningbo-Taizhou-Wenzhou Expressway. The Directors believe that the traffic network constituted by the Shangsans Expressway, the Shanghai-Hangzhou-Ningbo Expressway and the Ningbo-Taizhou-Wenzhou Expressway will lead to additional traffic volume to the expressways currently owned and operated by the Company, and are optimistic as to the prospects of the Shangsans Expressway. The Directors believe that the acquisition of a further interest in Shangsans Co will consolidate the existing portfolio of the Group, and serve to further enhance its asset base and improve its profitability.

Shareholding upon completion of Acquisition

Following the completion of the Acquisition, the Company will hold an approximate 79.4% interest in Shangsans Co, while the interest of Huajian will be reduced to zero.

Connected Transaction

Shangsans Co is a non-wholly owned subsidiary of the Company and Huajian is a substantial shareholder of Shangsans Co within the meaning of the Listing Rules. Accordingly, the Acquisition will constitute a connected transaction for the Company under the Listing Rules, and is subject to approval by the Independent Shareholders at the EGM to be convened by the Company. In addition, Huajian entered into the State-owned Share Transfer Agreement with Zhejiang Provincial Investment Co, the controlling shareholder of the Company (within the meaning of the Listing Rules) with a 67% interest in the issued share capital of the Company. Pursuant to this agreement, Zhejiang Provincial Investment Co transferred an 11% interest in the issued share capital of the Company to Huajian. The transfer will be completed and Huajian will become a substantial shareholder of the Company after the EGM and upon completion of certain registration formalities with the relevant PRC authorities. Prior to completion of the transfer, Zhejiang Provincial Investment Co will not be under any obligation or requirement to vote at the direction of Huajian in respect of the 11% interest, and will accordingly be entitled to vote at the EGM in respect of its 67% interest in the Company. Nevertheless, Zhejiang Provincial Investment Co has indicated to the Company that, for good corporate governance, it will abstain from voting at the EGM in respect of the 11% interest in the Company, even though it is not under any obligation or requirement to so abstain from voting. Huajian and its associates will be required to abstain from voting at the EGM on the resolution to approve the Acquisition.

An Independent Board Committee consisting of Dr. Hu Hung Lick, Mr. Tung Chee Chen and Mr. Zhang Junsheng has been formed to review the terms of the Acquisition and to advise the Independent Shareholders as to whether the terms of the Acquisition are fair and reasonable. DBS Asia Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee on the terms of the Acquisition.

A Share Issue

The Company intends to use the proceeds arising from the A Share Issue to fund the second stage of the construction to widen the Shenshi to Hongken section of the Shanghai-Hangzhou-Ningbo Expressway, in addition to the use of proceeds set out in the announcement of 10th January, 2001.

Subject to shareholders' approval at the EGM, the proceeds from the A Share Issue, which the Directors anticipate will amount to not less than RMB1 billion, will be used for the following purposes:

- (i) approximately RMB425,000,000 to be used for funding the first stage of the construction to widen the Hongken to Guzhu section of the Shanghai-Hangzhou-Ningbo Expressway;
- (ii) approximately RMB860,000,000 to be used for funding the second stage of the construction to widen the Shenshi to Hongken section of the Shanghai-Hangzhou-Ningbo Expressway;
- (iii) subject to approval of the Acquisition by the Independent Shareholders at the EGM, and subject to the approvals from the Ministry of Communication and Ministry of Transport being obtained on or before the date of the EGM, the balance of the proceeds to be used for funding the Acquisition;
- (iv) any balance remaining after funding the projects/transaction contemplated in paragraphs (i), (ii) and (iii) above from the proceeds of the A Share Issue to be used as working capital of the Company; and
- (v) if the proceeds from the A Share Issue are not sufficient for funding the projects/transaction contemplated under paragraphs (i), (ii) and (iii) above, the internal resources of the Company and/or bank loans will be used.

General

The Company and its subsidiaries are principally engaged in investing in, constructing and managing high grade roads. The Group also operates certain ancillary businesses, such as automobile servicing, operations of gas stations and bill board advertising along expressways.

An EGM will be convened at 10:00 a.m. on 22nd March, 2001 at 18th Floor, Zhejiang World Trade Center, 15 Shuguang Road, Hangzhou 310007, the PRC at which, inter alia, a resolution will be put forward for the Independent Shareholders to approve the Acquisition. The register of members of H Shares will be closed from 20th February, 2001 to 21st March, 2001 (both days inclusive) during which no transfer of shares will be registered.

A circular setting out, inter alia, details of the Acquisition, the advice from the independent financial adviser, and the recommendation from the Independent Board Committee on the Acquisition will be despatched to the shareholders of the Company as soon as practicable in compliance with the requirements of the Listing Rules.

By Order of the Board
Zhejiang Expressway Co., Ltd.
Geng Xiaoping
Chairman

Hangzhou, Zhejiang Province, the PRC, 2nd February, 2001

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

"A Shares"	means the domestic ordinary shares of RMB 1.00 each in the share capital of the Company proposed to be issued by the Company
"A Share Issue"	means the proposed issue and placement of A Shares by the Company and the proposed application for listing of A Shares on the Shanghai Stock Exchange
"Acquisition"	means the acquisition of an approximate 18.4% interest in Shangsans Co by the Company from Huajian pursuant to the Transfer Agreement
"Board"	means the board of Directors
"Company"	means Zhejiang Expressway Co., Ltd.
"CSRC"	means the China Securities Regulatory Commission of the PRC
"Directors"	means the directors, including the independent non-executive directors, of the Company
"EGM"	means the extraordinary general meeting of the Company to be held to consider, inter alia, the A Share Issue and the Acquisition
"Group"	means the Company and its subsidiaries
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC
"H Shares"	means the overseas listed foreign shares of RMB 1.00 each in the share capital of the Company which are listed on the Stock Exchange and admitted to trading on the London Stock Exchange Limited
"Huajian"	means Huajian Transportation Economic Development Centre (華建交通經濟開發中心), a State-owned enterprise established pursuant to the laws of the PRC
"Independent Board Committee"	means an independent committee of the Board
"Independent Shareholders"	means Shareholders other than Huajian and its associates as defined in the Listing Rules
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Ministry of Communication"	means the Ministry of Communication of the PRC
"Ministry of Finance"	means the Ministry of Finance of the PRC
"PRC"	means the People's Republic of China, and for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan
"PRC GAAP"	means PRC Generally Accepted Accounting Principles
"RMB"	means Renminbi, the lawful currency of the PRC
"Shangsans Co"	means Zhejiang Shangsans Expressway Co., Ltd., a company established pursuant to the laws of the PRC, which is 61% owned by the Company prior to completion of the Acquisition
"Shangsans Expressway"	means the Shangyu-Sanmen Road, within the Zhejiang Province of the PRC
"Shanghai-Hangzhou-Ningbo Expressway"	means the Shanghai-Hangzhou Expressway and Hangzhou-Ningbo Expressway within the Zhejiang Province of the PRC
"Shanghai Stock Exchange"	means Shanghai Stock Exchange of the PRC
"Shareholders"	means the shareholders of the Company
"State-owned Share Transfer Agreement"	means the transfer agreement dated 28th December, 2000 entered into between Zhejiang Provincial Investment Co and Huajian in relation to the transfer of an 11% interest in the share capital of the Company
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Transfer Agreement"	means the transfer agreement dated 2nd February, 2001 and the supplemental agreement dated the same date, entered into between the Company and Huajian in relation to the transfer of an approximate 18.4% interest in Shangsans Co held by Huajian to the Company
"Zhejiang Provincial Investment Co"	means Zhejiang Provincial High Class Highway Investment Company Limited, being the controlling shareholder (as defined in the Listing Rules) of the Company with a 67% interest in the share capital of the Company prior to completion of the transfer pursuant to the State-owned Share Transfer Agreement